

December 23, 1997



To the Most Honorable Sam Kathryn Campana, Mayor  
and the Members of the Scottsdale City Council

Transmitted herewith is the first of our periodic summary reports to you about City internal controls related to cash handling, Cash Handling Procedures, Report No. 9520. This audit was a scheduled project approved by City Council. Janet Lowden was the auditor in charge.

We did not identify any major errors or irregularities as a result of cash audits completed so far, although we have suggested that Financial Services should revise City-wide policies and procedures to be more comprehensive, and thus, more useful as a job aid for staff who handle cash, and for the supervisors who monitor their performance. We also have suggested that Financial Services should monitor the transaction volume at City locations which handle cash, to evaluate risk exposure. The Financial Services General Manager has responded that a target completion date for completing our recommendations is set for late March 1998.

Audits by our Office of City cash handling are performed on an on-going basis to not only evaluate control adequacy but to inform City staff about useful practices. To achieve this, we perform unscheduled visits to City locations which handle cash, to count their cash, and to review their written procedures and evaluate associated practices. After each cash count, a letter report is sent to the manager which sets out the results of our visits and any improvements we suggest. We also offer assistance in developing adequate written procedures.

If you need additional information or have any questions, please feel free to contact us at 994-7756.

Respectfully submitted,

A handwritten signature in cursive script that reads "Cheryl Barcala".

Cheryl Barcala, CIA, CPA, CFE, CGFM  
Scottsdale City Auditor

December 23, 1997

To: Dick Bowers, City Manager

From: Cheryl Barcala, City Auditor *Cheryl*

**RE: CITY CASH HANDLING, AUDIT NO. 9520**

In 1996, we initiated periodic on-going audits of internal controls over City cash handling, an approved project on the City Auditor's Fiscal Year 1995/96 Audit Plan. So far, we have gained an understanding of general controls which are promulgated by Financial Services, and performed surprise cash counts at four City locations. Written results of the surprise cash counts and our recommendations were furnished to the appropriate managers immediately after the visits. In general, we found that overall City controls over cash handling need to be strengthened. The response of the General Manager, Financial Services, to the report's two recommendations is enclosed. Financial Services has set a target completion date for addressing the issues in late March 1998.

**Results In Brief**

City-wide internal controls over cash handling could be improved. City management emphasizes delegation of responsibility and accountability to the lowest feasible organization level. Staff at the sites we visited to date needed to be appropriately prepared for the responsibilities of implementing needed cash handling controls. City-wide written policies and procedures maintained by Financial Services, those that anyone who handles cash or cash equivalents should follow, could be more comprehensive and, as a result, more helpful as a job aid. City management should make sure that City staff who handle cash are identified and adequately informed about appropriate controls, and should effectively monitor operational results to ensure that controls are implemented properly.

Specific internal controls over cash at the sites we visited needed strengthening, although we did not identify any major errors or irregularities. We found that procedures were incomplete, recordation and accountability were inadequate, and physical safeguards were insufficient, among other concerns. Individual letter reports for each site visited are attached.

**Background**

In general, internal controls over cash, and cash equivalents such as checks, ultratainment dollars, or bus tickets, should be stringent. Such controls are designed to prevent, detect or correct errors, irregularities, fraud, waste and abuse. Controls are intended to make sure that all cash receipts are recorded, reported, and distributed correctly and timely. Cash handling procedures suggested in audit literature are standard for all sorts of businesses, because the common risks of handling cash are well-defined.

Basic internal controls over cash include:

- written policies and procedures;
- accountability (recordation) established immediately for all cash or cash equivalents received;
- segregating the duties of the staff who control the assets and the staff who control records of the assets;
- limiting cash on hand;
- reconciling the recorded accountability with the actual assets; and
- management review.

Additional controls aim at establishing a clear "chain of custody" over cash, so that if management finds errors or omissions, they can determine who made them. Moreover, controls also include physical safeguards, both of the cash and of the staff who work with it. Physical safeguards include restricted public access in cash handling areas, security guards, panic alarms, and security videocameras.

By design, City controls over cash are not centralized or highly structured. Each organizational unit is responsible for taking the necessary steps to adequately control cash and to conform to the City accounting process and related guidance. While general procedures for handling cash are developed by Accounting in Financial Services, procedures are disseminated as a training outline, rather than as a required [regulatory] procedure. The outline is not updated on a routine periodic basis. Another Administrative Guideline exists for petty cash funds administration. Accounting relies upon departmental supervisory staff to properly administer their own cash handling operations, including the development of site-specific procedures. Some errors in documentation related to cash are identified and corrected by Accounting as bank deposits are prepared, but errors such as non-sequential numbered receipts or deposits which do not balance are to be tracked by departments.

Accounting does not maintain a list of all City staff who handle cash. While Accounting staff maintain a list of over 40 petty cash and change fund custodians (responsible for funds of \$25 to \$2,500), not all City staff handling cash are reflected on the list, which basically is a list of money on loan from the City general fund to remote sites. Total funds represented by petty cash and change funds is \$21,100, as of October 1997. Accounting does not monitor transaction volume for each location which deposits funds with the City Cashier, although this information could be used to identify City staff handling cash and to evaluate risk. In Fiscal Year 1995/96, the last year for which our data is complete right now, funds deposited with the City totaled \$91 million.

Accounting issues standard forms such as cash transmittals or receipt books to staff, upon request. Equipment such as safes also is administered by Accounting, but no standards related to types of situations requiring equipment use have been developed. Accounting also trains City staff who are identified to them by the departments as cash custodians.

In addition to Accounting, other City departments have a role in setting policy and procedure for staff who handle cash. Risk Management is responsible for bonding of employees who handle cash and for processing loss claims, as well as for proactively reducing risk. Physical security of employees who handle cash is addressed by an Administrative Guideline on Workplace Security. While technical advice about physical security is available from Emergency Services or the Police Department, staff stated that it was the departments' responsibility to evaluate cash handlers' physical security.

### **Recommendations**

We recommend that:

1. The Manager, Accounting, Financial Services, should periodically review and revise the City cash handling training outline, and include discussion about suggested practices for handling refunds, credit card transactions, staff turnover, segregation of duties, access controls (through passwords, identification numbers, or keys), and physical security needs.
2. The Director, Risk Management, Financial Services, should monitor the transaction volume at City locations which handle cash to evaluate risk exposure, and periodically evaluate the adequacy of the physical security provided.

### **Objectives, Scope and Method**

The purpose of this audit is to evaluate, on an on-going basis, the adequacy of internal controls over cash and other liquid assets in units throughout the City, and to formulate and recommend improved internal controls where they are needed. To formulate the standard audit program used for site visits and for assessing the overall City internal controls over cash, we contacted the Cities of Phoenix, Mesa, and Glendale, Arizona, and the City of Seattle, Washington, for cash audits, audit programs, and cash handling policies and procedures, which we reviewed. We also reviewed the professional audit literature related to controls over cash handling. With the assistance of staff in Financial Services, we copied the MAPPER data related to City deposits into a local ACCESS database which we can use for statistical analysis. Tests of the reliability of this data are included in the standard audit program.

Over time, we will perform surprise cash counts at every location in the City which we identify as handling cash and cash equivalents. Subsequent to each surprise cash count, we will administer a standard internal control questionnaire to each cash custodian. Staff will be interviewed and written policies and procedures will be reviewed. Observations will be made of the physical cash handling site. Where documentation exists, judgment samples of cash transmittals will be taken to estimate cash volume and assess compliance to guidance and criteria. Results of site visits will be furnished to management as each

visit is concluded. Periodically, summary reports will be prepared for the City Manager, and the Mayor and City Council.

Audit work is being conducted in accordance with generally accepted government auditing standards and as required by Article III Scottsdale Revised Code Section 2-117 *et seq*, with one exception. The last peer review of the City Auditor was completed April 5, 1991. Thus, we currently do not comply with the requirement for a peer review at least every four years.

Enclosure

Financial Services response


Attachments

1. Memo to Walt Johnson, Recreation Coordinator
2. Memo to Norma Jones, Citizen Service Center Coordinator
3. Memo to Dean Bryan, Library Coordinator
4. Memo to Sonia Robertson, City Clerk

cc    Audit Administrative File  
      Jim Jenkins, General Manager, Financial Services  
      Craig Clifford, Director, Accounting and Budget  
      Myron Kuklok, Director, Risk Management  
      Nancy Swick, Accounting Manager

December 18, 1997

TO: Cheryl Barcala, City Auditor

 FROM: Jim Jenkins, General Manager, Financial Services Department

***CASH HANDLING AUDIT NO. 9520***

I have received a copy of the City Cash Handling Audit No. 9520 recently completed by Internal Audit. It has been assigned for review and comment to Craig Clifford and Myron Kuklok. We have targeted completion within 90 days.

Thank you for your assistance in improving cash controls for the City.

JJ/mg

CC: Craig Clifford  
Myron Kuklok

## ATTACHMENT 1

December 12, 1997

To: Walt Johnson, Recreation Coordinator

From: Cheryl Barcala, City Auditor

RE: CASH HANDLING PROCEDURES, AUDIT NO. 9520

The referenced audit is being performed to evaluate controls over cash and cash equivalents in units throughout the City, and to recommend improved internal controls where necessary. Janet Lowden, auditor-in-charge, is performing the work. During the week of November 4th, we performed a surprise cash count at the Indian School Park Control Center. Cash in the cash register balanced to the recorded accountability. However, as a result of our review of your internal controls over cash, suggested improvements are set out in this memo. We urge your consideration of our recommendations. We estimate that Indian School Park handles more than \$115,000 annually. Park cash control procedures are assessed by the Commission for Accreditation of Park and Recreation Agencies during the City parks' national accreditation reviews.

There is a relatively high risk associated with cash transactions which requires a strong internal control system. Appropriate controls safeguard both City assets and staff, and need to be custom fit to particular situations so that the control is commensurate to the risk. It is management's job to decide whether or not an uncontrolled risk is acceptable.

Recreation staff at the Indian School Park Center already are practicing several good internal controls. You stated that you remind staff to comply with City cash handling policy, which requires that checks should be immediately endorsed, and that you periodically check on compliance. The change fund is limited to the City Cashier-authorized \$50. Written procedures exist. Staff handle cash out of public view to the maximum extent practical. Closing procedures exist, and transaction records are reconciled to the cash every day. The controls we suggest are made in light of the existing Indian School Park procedures and practices, City requirements, and the accreditation standards.

*First, a receipt must be given for all transactions and all transactions must be recorded.* At Indian School Park, two automated methods of receipting each transaction are available: the cash register and the CLASS computer system. At present, park staff use the cash register, which should issue individual receipts, for transactions such as accepting cash for tennis games, tennis lessons, or sales of

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tennis balls. However, park staff whom we interviewed stated that staff do not, in practice, ring all individual transactions due to the small dollar amounts and the potential impact on customer waiting time. The CLASS computer system implemented in April 1997 should issue a receipt for any course registrations or facility reservations which are taken. CLASS has an accounting module used to record and report about these specific types of transactions. However, rather than enter registrations or reservations individually, these transactions currently are entered three times a week into CLASS. Payments taken by each shift are kept in separate locking bank bags, and are stored in the facility safe. They are not rung into the cash register. You stated that manual City receipts usually are given to the customer.

The park's written procedures should be expanded to require that all transactions are to be documented using either the cash register, CLASS or the City receipt book, and staff practice must follow the procedures. If park customers refuse the cash register receipt, the receipt can be kept by staff on a spindle, and destroyed after the daily reconciliations. For payments received for drop-in tennis customers, we agreed with you that the drop-in tennis sign-in sheet will be revised to show date, time, and staff on duty, and that this sheet will become the recorded accountability for the payments. The sign-in sheet can be compared to the cash register daily recap tape to verify that all customers who played, paid, and that all payments were rung into the register. For course registrations and facility reservations, if you intend to continue to batch process these transactions, the City receipt book always should be used to establish an immediate record of the asset. Staff should individually prepare and sign these manual receipts.

*Second, the cash-handling duties should be segregated so that no one individual controls both the assets and the records of the assets.* At the park, while two staff usually are on duty at the end of the day, one individual performs the complete daily closing process, closing out the cash register, counting cash and checks, and preparing the deposit slip and the manual daily cash transmittal form for the day's transactions. Thus, the asset handling and record-keeping duties are not segregated.

Instead, we recommend that one individual should empty the cash register drawer, count the cash, prepare the Bank One deposit ticket, initial the ticket as its preparer, and put the documents and the cash into the sealed bag for storage in the safe. The second individual should close out the cash register, running the daily recap cash register tape (the "Z" tape), initialing the tape, filling out the manual daily cash transmittal form, and initialing the form as its preparer. Alternatively, the staff who opens the park in the morning could close out the cash register for the previous day, run the Z tape, and fill out the manual daily cash form. Either option maintains the appropriate segregation of duties between the record of what the assets should be (the cash register Z tape) and the actual assets (the cash register drawer contents).



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At the time the Loomis Armored Car pickup is prepared and the CLASS entries are performed, the cash register Z tapes and the receipts from the City book (for registrations and reservations) should be reconciled to the bank deposit slips, and any over/short noted. We also suggest that the park's procedures should establish a limit on over/shorts of \$10. Any variance of \$10 or over must be researched and explained on the cash transmittal form and should be reviewed by management to identify potential errors in training or procedures.

Third, *a clear chain of custody over assets must be maintained*. Good cash control requires that management should be able to trace transactions to the individuals who handled them, and City procedures require that each individual who works at the cash register should have a separate identifying key. However, while the park's cash register has the capability to individually identify staff entering a transaction through the use of cashier keys, this capability is not used. You stated that all staff who work at the park handle cash, including ringing sales into the register. The likelihood is that the record of staff who handled transactions would not be accurate even if identifying cash register keys were available.

For this reason, we recommend that, rather than modify the cash register so that each cashier is separately identified, accurate records of staff on duty during shifts be maintained to evidence the chain of custody over assets.

A second procedure which would enhance the chain of custody and comply with City policy is the practice of attaching refunded or voided transaction receipts to the original transaction receipt, with a written reason for the refund. The total amount of refunds or voids should match to the total refunded or voided transactions recorded on the Z tape. Discrepancies should be corrected during the reconciliation of the Z tape to the deposit slips by the person authorized to change the records. Cash register tapes, calculator tapes from totaling checks, and tapes recording refunds and voids should be retained for one year.

In addition, void Loomis Armored Car deposit slips should have a written explanation for their cancellation. Each deposit slip is pre-numbered so that a beginning and an ending number can be verified to slips from the day before and to what is left in the deposit slip book. This guarantees that all deposit slips have been submitted to the City Cashier. Each voided deposit slip should be signed and dated for management review. Books should be used up before beginning a new deposit slip book.

Fourth, good internal control requires *adequate written procedures*. Indian School Park cash handling procedures currently consist of one page of instructions regarding daily closing, and include the City Cashier standard training outline. Procedures should be updated to reflect current practice (including CLASS), and

## ATTACHMENT 1

should cover opening procedures, the chain of custody, reconciliations and management reviews, and all transaction types (cash, check, credit card, refunds). Formal written procedures assist in staff training and provide a guide for supervisors to use to periodically review performance to ensure that compliance to guidance is maintained. They also meet the accreditation standards. We would be happy to advise you about your written procedures.

*Last, management should periodically review the cash handling operations to ensure that guidelines are current and that staff are following them. Cash on hand and inventory should, on an unannounced basis, be reconciled periodically by supervisory staff. Such reviews should be documented.*

cc:     Audit Administration File  
          Nancy Swick, Accounting Manager  
          Bill Exham, General Manager, Community Services  
          Steve Lehmann, Senior Recreation Coordinator  
          Judy Weiss, Manager, Special Projects  
          Bill Murphy, Team Manager, Indian School Park

## ATTACHMENT 2

August 16, 1996

To: Norma Jones, Citizen Service Center Coordinator

From: Cheryl Barcala, City Auditor

RE: **CASH HANDLING PROCEDURES, AUDIT NO. 9520**

The referenced audit is being performed to evaluate controls over cash and cash equivalents in units throughout the City, and to recommend improved internal controls where necessary. Janet Lowden, auditor-in-charge, and Ray Nader are performing the work. During the week of July 29, we performed a surprise cash count at the Citizen Service Center — Los Arcos. As a result, suggested improvements in your cash handling procedures are set out in this memo. We urge your consideration of these suggestions, as we estimate the Los Arcos site handles more than \$82,000 annually.

There is a relatively high risk associated with cash transactions which requires a strong internal control system. Appropriate controls safeguard both City assets and staff, and need to be custom fit to particular situations so that the control is commensurate to the risk. It is management's job to decide whether or not an uncontrolled risk is acceptable.

Citizen Service Center staff at Los Arcos are already practicing several good internal controls. Staff are complying with City cash handling policy which requires that checks should be immediately endorsed, and the change fund is limited to the City Cashier-authorized \$200. Written procedures exist. Staff handle cash out of public view to the maximum extent practical. The controls we suggest are fairly stringent, but are made in light of the existing Los Arcos procedures.

First, *a clear chain of custody over cash should be maintained.* Staff should be reminded of the importance of signing on to the cashiering system for each transaction using their own user identification. Good control requires that management should be able to trace transactions to the individuals who handled them. Los Arcos procedures should state that cashiers always sign on to the cashiering system before processing transactions to record their user identification. However, staff stated that they access the system using the same user identification during busy times. This renders the recorded chain of custody in the cashiering system inaccurate.

A second procedure which would enhance the chain of custody and comply with City policy is the practice of attaching voided transaction receipts to the original transaction receipt, with a written reason for the void. The total amount of voided transaction receipts should match to the total voided transactions reported on the Los Arcos daily cash recap. Discrepancies should be corrected during the preparation of the daily cash transmittal.

In addition, void or missing Loomis Armored Car deposit slips should have a written explanation for their cancellation or absence. Each deposit slip is pre-numbered so that a beginning and an ending number can be verified to slips from the day before and to what is left in the deposit slip book. This guarantees that all deposit slips have been submitted to the City Cashier. Each voided deposit slip should be signed and dated for management review. Books should be used up before beginning a new deposit slip book.

Second, good internal control requires that *cash and cash equivalents should be safeguarded*. Los Arcos staff should improve physical security over the cash by locking the safe during business hours and making sure that all cash, including the deposits ready to be delivered to Loomis, are in the secured safe. At the time of our visit, we found the safe unlocked. Also, the safe contained many keys. Keys, including the cash register keys, should be properly inventoried and controlled. We suggest that you consider a separate key control box and a key control procedure. Key control procedures should include an inventory and sign-out activity for staff to obtain keys as well as changing the locks during staff turnover.

As a further safeguard, we suggest that a cash recap report could be run in the afternoon to determine if there is too much cash in the drawer. If so, staff could count the cash change fund and lock the remaining funds in the safe until the cash transmittal is completed.

Third, good control requires that *periodic comparisons between assets and the record of assets should be made*. Los Arcos staff should maintain inventory records to reconcile to sales reported. Without inventory records, it is not possible to determine if all items sold or otherwise leaving the area have been accounted for, or if errors or irregularities have occurred in handling cash. Reconciliation of daily cash register receipts to physical inventory on a regular basis should be implemented.

Fourth, good internal control requires *adequate written procedures*. Los Arcos procedures should be updated and more complete. Formal written procedures assist in staff training and provide a guide for supervisors to use to periodically review performance to ensure that compliance to guidance is maintained. Los Arcos procedures contain several statements that are not accurate or current to actual operations (as explained by Los Arcos staff). In the procedures, the change fund is stated to contain \$100 but was modified to \$200 by the City Cashier.

Procedures state that the cashiering system allows void transactions to be entered for previous days' work. This is not practiced by staff nor is it recommended by the Accounting Division. Instructions to process refunds should be added to the procedures. In addition, opening procedures should require staff to count the cash change fund to verify that it equals \$200. You may also want to consider posting a price list and refund policy near the merchandise as well as a reminder to the public to obtain a receipt at the cash register.

A threshold of overages/shortages should be set. We recommend \$5 a day. Any overage/shortage reported beyond the threshold should be reviewed by management to identify potential errors in training or procedures.

Last, *management should periodically review the cash handling operations to ensure that guidelines are current and that staff are following them.* Cash on hand and inventory should, on an unannounced basis, be reconciled periodically by supervisory staff.

cc:     Audit Admin File  
          Debbi Dollar, Community Planning Administrator  
          Nancy Swick, Accounting Manager

### ATTACHMENT 3

May 21, 1996

To: Dean Bryan, Library Coordinator, Civic Center Library

From: Cheryl Barcala, City Auditor

#### **RE: CASH HANDLING PROCEDURES, AUDIT NO. 9520**

The referenced audit is being performed to evaluate controls over cash and cash equivalents in units throughout the City, and to recommend improved internal controls where necessary. Janet Lowden is the auditor in charge. During the week of May 6th, we performed a surprise cash count at the Circulation Desk cash register. Cash in the register balanced to the recorded accountability. Our preliminary observations of other internal controls related to Library cash handling, however, led us to formulate suggestions for improvements which are discussed below.

To provide you with some background, in general, controls are designed to prevent, detect or correct errors, irregularities, fraud, waste, and abuse. Appropriate controls safeguard both City assets and staff, and need to be custom-fit to particular situations, so that the control is commensurate with the risk. An illustration of a poor control would be to decide to insure an empty cardboard box for \$500--the control is too expensive for the risk. It is management's job to decide whether or not an uncontrolled risk is acceptable. Handling of cash and cash equivalents such as checks or money orders is a high risk area. Thus, suggested controls are fairly stringent, and we urge you to consider our suggestions.

First, *physical security over cash and staff who handle cash should be improved*. The Civic Center Library receives cash from many sources, including overdue book fines, lost book charges, book rentals, bus ticket sales, donations, coin-operated machines, and other sources. The designated cash custodian is Bonnie Pallini, Accounting Clerk. The Accounting Clerk's office is the location where all cash is collected, counted, and held overnight. Estimated annual cash volume is from \$150,000 to over \$300,000, based on Bonnie's review of her ledgers.

Cash on hand is routinely highest on Monday mornings when Bonnie prepares the deposit from Friday, Saturday and Sunday operations. Monday deposits, according to Bonnie, recently ranged from \$1,100 to \$5,000. At other times, cash on hand can rise to \$7,000 when a special event is held. Bonnie has a dual control safe installed in her office in which she stores cash, Ultrataintment certificates worth \$10 each, paychecks, keys, and petty cash slips.

### ATTACHMENT 3

No panic alarm or security camera is installed in Bonnie's office. While the Circulation Desk has a panic alarm installed near the one cash register we visited, it cannot be used unobserved. We suggest that you contact Marc Eisen, Emergency Services Director, for a physical security audit. We believe that, at the least, Bonnie's office should have a panic alarm installed. The Circulation Desk panic alarm should be relocated.

Although a dual control safe can be an important physical safeguard, Bonnie's safe is not appropriately used, because three staff members have both knowledge of the combination and keys. This renders the "dual control" principle, which requires two people to open the safe, useless. We suggest that the safe dual control capability should be appropriately implemented, and that alternate procedures should be developed so that Bonnie will not be required to access the safe throughout the day to retrieve keys, Ultrataintment certificates, or other items.

The second most immediate need is for *written cash handling policies and procedures, staff training in procedures, and periodic supervisory review to ensure that compliance to guidance is maintained*, both for Bonnie and for all Library staff who handle cash. Written procedures document that adequate internal controls have been developed, and provide for operational security in the event of staff loss. Without such documentation, you face the prospect of a time-consuming manual reconstruction of procedures. We were told that written procedures are not available which cover Library cash handling, although Bonnie is developing procedures for her position now. Bonnie has received the general training provided by the City Cashier and has also attended the Security in the Workplace Workshop. Both of these sources will need to be incorporated into your local procedures.

Finally, based upon our preliminary observations, the Library needs to *limit cash on hand to what is absolutely needed for operations*. The Library should consult with Financial Services about the potential for providing daily deposits on weekends. Right now, cash on hand is routinely highest on Mondays which is an unacceptable risk for the City. City guidance is that any cash over \$50 should be deposited daily.

cc: Audit Admin File

Judy Register, Library Director

Bonnie Pallini, Accounting Clerk, Civic Center Library

Nancy Swick, Accounting Manager

#### ATTACHMENT 4

May 1, 1996

To: Sonia Robertson, City Clerk

From: Cheryl Barcala, City Auditor

#### RE: CASH HANDLING PROCEDURES, AUDIT NO. 9520

The referenced audit is being performed to evaluate controls over cash and other liquid assets in units throughout the City, and to recommend improved internal controls where necessary. Janet Lowden is the auditor in charge. During the week of April 22, 1996, we performed two surprise cash counts in your office. As a result, suggested improvements in City Clerk cash handling procedures are set out in this memo. We urge your consideration of these suggestions, as we estimate your Office handles \$93,000 annually.

First, *physical security over the cash should be improved.* There are several ways in which the Clerk's Office situation could be changed. Two locking cash boxes could be used, one for Linda Lorbeer and one for Mike Ritter. Right now, the lock to the Clerk's single cash box has been disabled by masking tape. Keys to the cash boxes could be controlled, ie, staff authorized to handle cash should sign for their cash box keys, and should keep them safeguarded at all times. If for any reason cash must be held overnight, it should be kept in such a manner that it would take two individuals to access the asset, for example, in a dual control safe. As City Clerk staff now handle cash, cash on hand can rise to over \$2,000 in a week, yet cash is kept in a lockable file cabinet to which all staff apparently have access. Accounting will furnish a safe to offices which request them.

Second, *the staff authorized to handle cash, the cash custodian, should be clearly identified at all times, and access to cash should be limited to authorized individuals.* Each individual who handles cash should have his/her own "cash drawer." This conforms to one principle of control over cash which states that the supervisor should always be able to trace any error or omission to the one individual who had control of the assets. If drawers must be shared, for example, if the usual cash custodian is absent, then authorization must be passed to the serving cash custodian to preserve the chain of custody. The drawer should be balanced and closed out before the serving cash custodian takes over. Right now, Linda and Mike share the same cash drawer, and all Clerk staff make change from it. When we counted the cash, it did not balance to the documentation. There was more cash in the box than what should have been there given the standard change fund and the cash receipts.

Third, *cash on hand should be limited to what is necessary for operations, and checks should be immediately endorsed.* At the time of our first visit, Linda Lorbeer had an unendorsed check in the cash box. At the time of our second visit, Mike Ritter had \$620 in cash and checks on hand in the unlocked file cabinet. City procedures require that any checks should be immediately endorsed and cash on hand over \$50 should be



#### ATTACHMENT 4

immediately deposited. Mike stated that due to workload, he had begun depositing cash once a week on Friday, rather than daily.

*Fourth, it should be possible to reconcile cash to supporting documentation, and receipts should be sequentially numbered so that missing or misapplied cash can be identified.* As City Clerk currently administers cash, a standard pre-numbered City cash receipt is issued for some transactions. However, receipts are not issued for small copy orders, passports, or marriage licenses. The lack of receipts for copies, according to Linda, probably accounts for the cash box overage. Without individual receipts, no means exists for the supervisor who signs the cash transmittal to verify that all cash is accounted for, especially for passports and marriage licenses. For this reason, all missing cash receipts or voided cash receipts should be explained or researched, and cash should be reconciled to documentation daily. Any break in receipt number sequence signals that associated cash may not be accounted for.

When the supervisor signs the cash transmittal form, the signature is evidence that the supervisor has verified that the count is correct and supported by documentation, and that missing or voided receipts have been acceptably explained.

According to Mike, issuing written cash receipts to each passport or marriage license customer will be very time-consuming. Nonetheless, Mike should be issued his own numbered cash receipt books, and should issue a receipt to each customer. Mike should also have his own change fund and cash box, ideally, to facilitate the chain of custody over cash. Addition of a cash register at the Clerk's Office might streamline cash handling while providing improved control and faster customer service. The cash register would not need to be directly interfaced with Accounting.

*Last, written procedures regulating cash handling should be prepared, staff who handle cash should be trained in procedures, and supervisors should periodically review performance to ensure that compliance to guidance is maintained.* We were told that written procedures are not available which cover City Clerk cash handling. Linda Lorbeer has received the general training provided by the City Cashier, but Mike Ritter has not. We did not find evidence of appropriate supervisory review of cash handling. Linda stated that she verbally will advise you of shortages in the cash box, but that corrective action has not been required. Informally, her approach for shortages in her change fund is that she will add in non-receipted copy fees until her change fund is correct.

Overages and shortages should be tracked, and a threshold should be pre-set for overage and shortage amounts which trigger follow up. Periodically, the supervisor should reconcile the pink receipt copies with the cash transmittals, to deposits shown on the trial balance available from Accounting.

cc: Audit Admin File  
Nancy Swick, Accounting Manager